



DEPARTMENT OF
FINANCE

ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

November 15, 2007

Mr. Barry Wallerstein, Executive Officer
South Coast Air Quality Management District
91765 E. Copley Drive
Diamond Bar, CA 91765-4182

Dear Mr. Wallerstein:

Final Report—Fiscal Review of the South Coast Air Quality Management District's Carl Moyer Program, Lower-Emission School Bus Program, and AB 923 Funds.

Enclosed is the final report of the fiscal review of the South Coast Air Quality Management District's Carl Moyer Program (fiscal years 1998-99 through 2006-07), the Lower-Emission School Bus Program (fiscal years 2002-03 through 2006-07), and use of AB 923 funds (fiscal years 2005-06 through 2006-07). The District's response has been incorporated into the final report.

We appreciate the assistance and cooperation of your staff and management during our review. If you have any questions, please contact Mary Kelly, Manager, or Angie Williams, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by Richard R. Sierra for:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Tom Cackette, Acting Executive Officer, Air Resources Board
Mr. Jack Kitowski, Branch Chief, Mobile Source Control Division, Air Resources Board
Ms. Heather Arias, Manager, Mobile Source Control Division, Air Resources Board
Mr. David Salardino, Manager, Mobile Source Control Division, Air Resources Board
Mr. Patrick Pearce, Chief Financial Officer, South Coast Air Quality Management District
Mr. Chung Liu, Deputy Executive Officer, South Coast Air Quality Management District
Ms. Elisa Virgo, Controller, South Coast Air Quality Management District
Mr. Fred Minassian, Manager, South Coast Air Quality Management District

South Coast Air Quality Management District
Carl Moyer Program
Lower-Emission School Bus Program
Assembly Bill 923

Prepared By:
Office of State Audits and Evaluations
Department of Finance



FISCAL REVIEW

Mr. Barry Wallerstein, Executive Officer
South Coast Air Quality Management District
91765 E. Copley Drive
Diamond Bar, CA 91765-4182

The California Air Resources Board (Board) contracted with the Department of Finance, Office of State Audits and Evaluations (Finance), to perform a fiscal review of the South Coast Air Quality Management District's (District) implementation of the Carl Moyer Program (fiscal years 1998-99 through 2006-07), the Lower-Emission School Bus Program (fiscal years 2002-03 through 2006-07), and use of AB 923 funds (fiscal years 2005-06 through 2006-07). Concurrent to this review, the Board conducted a program audit of the District's Carl Moyer Program and the Lower-Emission School Bus Program and issued its report in September 2007.

Background

The District's mission is to achieve clean air, and to protect the public health and the environment. The District implements multiple clean-air programs which are supported by federal, state, and local funds. This review encompasses three programs funded by the state: the Carl Moyer Program (CMP), the Lower-Emission School Bus Program (LESBP) Retrofit and Replacement Programs, and AB 923 funds.

The objective of the CMP is to contribute to cleaner air by funding the incremental cost of replacing or retrofitting older engines with cleaner-than-required engines and equipment. Public or private entities that operate eligible engines or equipment within the District's jurisdiction participate by applying to the District for a grant. Examples of eligible engines and equipment include heavy-duty vehicles, marine applications, locomotives, agricultural pumps, forklifts, and auxiliary power units.

The primary purpose of the LESBP is to reduce school children's exposure to cancer-causing and smog-forming pollution. The LESBP achieves this through a Replacement Program and a Retrofit Program. The Replacement Program funds the replacement of older high-polluting school buses with new buses. The Retrofit Program funds the installation of Board-approved pollution control devices on diesel school bus engines.

Assembly Bill 923 (Chapter 707, Statutes of 2004) provided two additional sources of funding for the CMP. By adjusting fees assessed on purchasers of new tires, the legislation resulted in approximately \$25 million for clean air programs in fiscal year 2005-06. AB 923 also provided air district governing boards with the authority to approve a \$2 increase in motor vehicle registration fees. This increase provides up to \$55 million annually to local air districts for four incentive programs: (1) the CMP, (2) the LESBP's Replacement Program, (3) light-duty accelerated vehicle retirement or repair programs, and (4) the Agricultural Assistance Program.

Scope and Methodology

The Board engaged Finance to review the District's fiscal administration of the CMP, the LESBP, and AB 923 funds, and the District's fiscal compliance with applicable laws, regulations, guidelines, and contract requirements. District processes for receiving, recording, and disbursing program funds; allocating administrative costs and earned interest; and meeting match funding requirements were analyzed. Schedules were created from the District's records to summarize amounts received and disbursed for the programs and funds from July 1, 1998 through June 30, 2007. Finally, site visits were conducted to interview program participants and review pertinent documents.

The review was not conducted in accordance with Generally Accepted Government Auditing Standards, and did not include extensive testing of the District's internal control or the programmatic appropriateness of expenditures. Had additional procedures been performed, other matters might have come to our attention that would have been reported.

Analyses and Summary Schedules

Carl Moyer Program:

The following schedule illustrates CMP funds awarded and expended on a cumulative cash basis for fiscal years 1998-99 through 2006-07. This schedule also shows the award funds remaining at the end of each CMP Grant Period on a cumulative cash basis. The awards for fiscal years 2004-05 and 2005-06 include project and multi-district funding. An unexpended project fund balance of \$15,338,070 remained at the end of fiscal year 2006-07 (Observation 1). However, during fiscal year 2006-07 the District hired additional CMP personnel, updated the CMP internal procedures, and successfully expended over \$21 million in CMP funds.

CMP Year ¹	Fiscal Year	Award Amount Received - Including Multi-District	Cumulative Grant Award By Fiscal Year	Expenditures Within Fiscal Year	Total Cumulative Expenditures At the End of Fiscal Year	Remaining Award To Be Expended At the End of Each CMP Grant Period ²
1	1998-99	11,275,593	11,275,593	0	0	N/A
2	1999-00	8,349,769	19,625,362	0	0	N/A
3	2000-01	19,745,849	39,371,211	5,322,356	5,322,356	5,953,237
4	2001-02	7,257,338	46,628,549	7,158,658	12,481,014	7,144,348
5	2002-03	8,148,088	54,776,637	5,237,203	17,718,217	21,652,994
6	2003-04	7,448,659	62,225,296	10,342,703	28,060,920	18,567,629
7	2004-05	12,317,085	74,542,381	4,615,846	32,676,766	22,099,871
8	2005-06	12,623,926	87,166,307	5,274,034	37,950,800	24,274,496
9	2006-07	0	87,166,307	21,253,511	59,204,311	15,338,070

¹ CMP Year 1 grant period ended 6/30/01; CMP Year 2 grant period ended 6/30/02; CMP Year 3 grant period ended 6/30/03; CMP Year 4 grant period ended 6/30/04; CMP Year 5 grant period ended 6/30/05; CMP Year 6 grant period ended 6/30/06; CMP Year 7 grant period ended 6/30/07; CMP Year 8 grant period ends 6/30/08; CMP Year 9 grant period ends 6/30/09.

² This column summarizes award funds that have not been expended within the required time period. These amounts are shown on a cumulative cash basis, for example, the Cumulative Grant Award By Fiscal Year for fiscal year 1998-99 (CMP Year 1) of \$11,275,593 less the Total Cumulative Expenditures At the End of Fiscal Year for fiscal year 2000-01 (end of CMP Year 1 Grant Period) of 5,322,356 equals the Remaining Award To Be Expended At the End of Each CMP Grant Period for CMP Year 1 of 5,953,237.

Carl Moyer Program Administration:

The following schedule illustrates CMP administration funds awarded and expended for program years 7 and 8. No administration funds were awarded for years 1 through 6, and as of June 30, 2007 no administration funds had been received by the District for year 9. The District uses a job cost methodology to calculate administration costs charged to the CMP. Using this methodology, the District has fully expended the year 7 administration grant funds awarded and has expended half of the year 8 grant funds awarded. The administration expenses appropriately relate to CMP activities and are directly supported by timesheets as required by CMP guidelines.

CMP Year	Fiscal Year	Administration Funds Awarded	Expenditures Within Grant Period	Remaining Administration Award
7	2004-05	275,610	275,610	0
8	2005-06	800,141	400,071	400,070

Carl Moyer Program Match Requirements:

The following schedule illustrates the CMP match requirements and expenditures for program years 1 through 8. The District fully met match requirements for years 1 through 6 by completing eligible projects funded with local-control funds. As of June 30, 2007, the District had remaining match requirements of \$527,744 in year 7, and \$5,424,688 in year 8. As of June 30, 2007, no CMP awards have been received for year 9, and therefore, any year 9 match requirement was not evaluated.

CMP	Fiscal Year	Required District Match	Match Expenditures Within Grant Period	Remaining Unexpended Match Requirement
1	1998-99	5,637,797	5,637,797	0
2	1999-00	4,174,884	4,174,884	0
3	2000-01	5,373,020	5,373,020	0
4	2001-02	3,527,782	3,527,782	0
5	2002-03	4,074,044	4,074,044	0
6	2003-04	3,724,330	3,724,330	0
7	2004-05	5,421,846	4,894,102	527,744
8	2005-06	5,424,688	0	5,424,688

Carl Moyer Program Earned Interest:

The following schedule illustrates the District's allocation of interest earned on the cumulative unexpended balances of Carl Moyer Program funds during the review period. The District's interest calculation methodology is appropriate and allocations are materially correct and properly recorded. The district has appropriately used \$114,298 of earned interest to fund CMP eligible projects.

Fiscal Year	Beginning Balance	Interest Earned	Expenditures	Ending Balance
1999-00	0	398,912	0	398,912
2000-01	398,912	1,237,442	0	1,636,354
2001-02	1,636,354	1,297,401	0	2,933,755
2002-03	2,933,755	756,033	0	3,689,788
2003-04	3,689,788	385,056	0	4,074,844
2004-05	4,074,844	675,241	0	4,750,085
2005-06	4,750,085	1,052,259	0	5,802,344
2006-07	5,802,344	1,300,240	(114,298)	6,988,286
Total Expenditures			(114,298)	6,988,286
Total Earned Interest				6,988,286

Lower-Emission School Bus Program:

The following schedule illustrates LESBP Replacement and Retrofit Program funds awarded and expended during the review period. The District did not receive LESBP Retrofit Program funding during fiscal years 2002-03 and 2003-04, and the LESBP was not funded state-wide during fiscal years 2004-05 or 2006-07. The District is participating in both the fiscal year 2005-06 Retrofit and Replacement Programs. The District has fully expended its fiscal year 2002-03 LESBP award by completing eligible LESBP projects. As of June 30, 2007, the District had remaining balances relating to the awards it received in fiscal years 2003-04 and 2005-06.

Fiscal Year	Program	Award Amount	Expenditures as of 6/30/07	Balance as of 6/30/07
2002-03	Replacement	2,175,000	(2,175,000)	0
2003-04	Replacement	2,030,000	(1,843,652)	186,348
2005-06	Replacement	1,995,000	(1,159,635)	835,365
2005-06	Retrofit	5,449,000	(153,063)	5,295,937

Lower-Emission School Bus Program Earned Interest:

The following schedule illustrates the District's allocation of interest earned on the cumulative unexpended balances of LESBP funds for the Retrofit and Replacement Programs during the review period. The District did not receive payment of its fiscal year 2002-03 LESBP award until late in fiscal year 2003-04 and therefore no interest was earned in fiscal year 2002-03. The District's interest calculation methodology is appropriate and the allocations are materially correct and properly recorded. The District has not expended any of the LESBP earned interest funds.

Fiscal Year	Program	Beginning Balance	Interest Earned	Expenditures	Ending Balance
2003-04	Replacement	0	6,647	0	6,647
2004-05	Replacement	6,647	14,016	0	20,663
2005-06	Replacement	20,663	13,645	0	34,308
2006-07	Replacement	34,308	112,149	0	146,457
2006-07	Retrofit	0	249,398	0	249,398

Assembly Bill 923:

The following schedule illustrates the AB 923 monies received and expended from receipts beginning July 2005 (from fee collections beginning in May 2005) through June 30, 2007. The District has expended \$7,907,515 on eligible projects, and the administration charges of \$2,247,336 (4.62 percent of collections) are appropriate as allowed by the statute.

2005-06 Receipts	2006-07 Receipts	Total Receipts	Expenditures	Administration Charges	Balance as of 6-30-07
23,866,594	24,769,184	48,635,778	(7,907,515)	(2,247,336)	38,480,927

Assembly Bill 923 Earned Interest:

The following schedule illustrates the District's allocation of interest earned on the cumulative unexpended balances of AB 923 funds during the review period. The District's interest calculation methodology is appropriate and the allocations are materially correct and properly recorded. The District has appropriately used \$26,291 of earned interest to fund AB 923 eligible projects.

Fiscal Year	Beginning Balance	Interest Earned	Expenditures	Ending Balance
2005-06	0	735,048	0	735,048
2006-07	735,048	1,952,579	(26,291)	2,661,336
Total Expenditures			(26,291)	2,661,336
Total Earned Interest				2,661,336

OBSERVATIONS

Review of the District's compliance with the fiscal requirements of the CMP, the LESBP, and AB 923 funds resulted in the following observation:

Carl Moyer Program

Cumulative awards of \$15,338,070 received through June 30, 2005 (CMP year 7) remains unspent as of June 30, 2007.

Recommendation: The District should continue to work with the Board on the existing plan to expend the remaining funds on eligible projects.

The District's assistance and cooperation with our review was appreciated. If you have any questions regarding this report, please contact Mary Kelly, Manager, at (916) 322-2985.

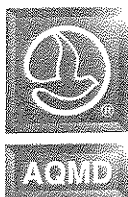
This report is a matter of public record and its distribution is not limited.

Original signed by Richard R. Sierra for:

Janet I. Rosman, Assistant Chief
Office of State Audits and Evaluations

October 15, 2007

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT'S RESPONSE



South Coast Air Quality Management District

21865 Copley Drive, Diamond Bar, CA 91765-4178
(909) 396-2000 • www.aqmd.gov

*Office of the Executive Officer
Barry R. Wallerstein, D.Env.
909.396.2100, fax 909.396.3340*

November 6, 2007

Ms. Janet Rosman, Assistant Chief
California Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall, Suite 801
Sacramento, CA. 95814

Re: Draft Report – Fiscal Review of the South Coast Air Quality Management District’s Carl Moyer Program, Lower-Emission School Bus Program, and AB923 Funds

Dear Ms. Rosman:

On behalf of the South Coast Air Quality Management District (SCAQMD), I would like to thank you and your staff for the opportunity to submit the following comments regarding the Department of Finance’s (DOF) draft fiscal review of SCAQMD’s Carl Moyer Program, Lower-Emission School Bus Program, and AB923 funds. We hope these comments will be reflected in the DOF’s final report. As always, my staff and I are available to address any of your questions or concerns.

Observation: *Cumulative awards of \$15,338,070 received through June 30, 2005 (CMP year 7) remains unspent as of June 30, 2007*

Recommendation: *The District should continue to work with the Board on the existing plan to expend the remaining funds on eligible projects*

SCAQMD's Response:

SCAQMD will continue to work with the California Air Resources Board (CARB) on the existing plan to expend the remaining funds.

For years 1-7 of the Carl Moyer Program, SCAQMD has received a total of \$73,927,322 from CARB. In addition, SCAQMD has provided \$4,179,868 from its Clean Fuels Fund to fund specific Moyer projects as our required local match. This means that from the total sum of \$78,107,190 Carl Moyer Program funds, \$62,769,120 was paid in response to invoices by the audit date of June 30, 2007. The overall program cost-effectiveness was \$5,000 per ton compared to the program's allowable \$14,300 per ton.

The remaining \$15,338,070 is fully obligated through executed contracts. All the projects are in progress and partial payments have been made on each and every contract. SCAQMD expects that all these projects will be completed within the next few months. As a matter of fact, from the audit date of June 30, 2007 to date, the \$15,338,070 balance has been reduced to approximately \$8.2 million. As it's evident in DOF's report, SCAQMD's program streamlining and staff expansion has shown positive results since last year's audit. As mentioned above, SCAQMD will continue to work with CARB on the existing plan to expend the remaining funds on eligible projects.

I thank you for the opportunity to submit our comments to DOF's Draft Report of SCAQMD's Carl Moyer Program, Lower-Emission School Bus Program, and AB923 Funds. Please feel free to call me at (909)396-2100 if you have any questions regarding our response or require any additional information.

Sincerely,

Original signed by:

Barry R. Wallerstein, D.Env.
Executive Officer

cc: Mr. Tom Cackette, Chief Deputy Executive Officer, CARB
Mr. Jack Kitowski, Branch Chief, CARB